

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Charlotte Community Library	County Eaton
Fiscal Year End 6/30/06	Opinion Date 7/24/06	Date Audit Report Submitted to State 9/15/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

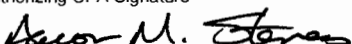
YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number 517.351.6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
		Zip 48823	
Authorizing CPA Signature 		Printed Name Aaron M. Stevens, CPA	
		License Number 1101024055	

**Charlotte Community Library  
Charlotte, Michigan**

**FINANCIAL STATEMENTS**

**June 30, 2006**

Charlotte Community Library

Charlotte, Michigan

June 30, 2006

BOARD OF TRUSTEES

Mr. Stephen Shook	President
Mr. Keith Tirrell	Vice President/ Secretary
Ms. Mary Lou Stafford	Treasurer
Ms. Sharon Kubica	Member
Ms. Kathleen Cook	Member
Ms. Sylvia Colles	Member
Mr. Dale Dodds	Member

Charlotte Community Library

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Principals

Dale J. Abraham, CPA  
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Eric J. Glashouwer, CPA



**ABRAHAM & GAFFNEY, P.C.**  
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Trustees  
Charlotte Community Library  
Charlotte, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Charlotte Community Library as of and for the year ended June 30, 2006, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charlotte Community Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Charlotte Community Library as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

July 24, 2006

Charlotte Community Library

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

As management of the Charlotte Community Library, we offer this discussion and analysis of the activities of the Library for the year ended June 30, 2006.

The discussion and analysis of financial performance provides an overview of the Library's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the Library's financial statements which will immediately follow this section.

**Financial Highlights**

The following represent the most significant financial highlights for the year ending June 30, 2006:

- The assets of the Library exceeded its liabilities at the end of the fiscal year by \$2,024,139 (net assets) at the government-wide level.
- The Library's total net assets decreased by \$32,952 as a result of current year activity at the government-wide level.
- At the close of the fiscal year, the Library's governmental fund reported a fund balance of \$507,065.
- Penal fines and donations were slightly higher than anticipated due to the state and national economies.

**Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Charlotte Community Library as a whole and present a longer-term view of the Library's finances.

The fund financial statements present a short-term view; they tell us how the taxpayer's resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of the Library in more detail than the government-wide financial statements by providing information about the Library's General Fund.

**The Library as a Whole**

The following table shows, in a condensed comparative format, the net assets as of June 30, 2005 and 2006.

	<u>2005</u>	<u>2006</u>
<b>Assets</b>		
Current and other assets	\$ 536,014	\$ 523,602
Capital assets	<u>1,553,371</u>	<u>1,532,874</u>
Total assets	2,089,385	2,056,476
<b>Liabilities</b>		
Current liabilities	18,735	16,537
Noncurrent liabilities	<u>13,559</u>	<u>15,800</u>
Total liabilities	<u>32,294</u>	<u>32,337</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	1,553,371	1,532,874
Unrestricted	<u>503,720</u>	<u>491,265</u>
Total net assets	<u>\$ 2,057,091</u>	<u>\$ 2,024,139</u>

Charlotte Community Library  
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

As previously stated, the total net assets of the Charlotte Community Library at the end of this fiscal year were \$2,024,139. Unrestricted net assets decreased by \$12,455 to \$491,265 as of June 30, 2006.

The following table shows the changes in net assets in a comparative format for the years ending June 30, 2005 and June 30, 2006, respectively.

	<u>2005</u>	<u>2006</u>
<b>Revenues</b>		
Program revenue:		
Charges for services	\$ 20,362	\$ 21,769
Operating grants and contributions	183,546	3,624
General revenue:		
Property taxes	318,280	328,378
State Aid - unrestricted	25,289	20,979
Penal Fines	121,703	135,776
Interest	2,912	5,297
Miscellaneous	<u>704</u>	<u>2,620</u>
Total revenues	672,796	518,443
<b>Program Expenses</b>		
Library services/operations	<u>518,165</u>	<u>551,395</u>
<b>Change in Net Assets</b>	<b><u>\$ 154,631</u></b>	<b><u>\$( 32,952 )</u></b>

**Governmental Activities**

The Library's governmental revenues totaled \$518,443 with the greatest revenue being property taxes levied by the library. Property taxes make up approximately 63 percent of total governmental revenue. The Operating Grants and Contributions decreased significantly due to receiving a large one time contribution from a patron in 2005.

The Library incurred expenses of \$551,395 during the year. As a special purpose government, all of the governmental expenses incurred are associated with the library service function.

**The Library's Fund**

The analysis of the Library's major fund begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about the General Fund, not the Library as a whole. The Charlotte Community Library's Board of Trustees may create funds to help manage money for specific purposes as well as to show accountability for certain activities. The Library's only fund for the fiscal year ended June 30, 2006 was the General Fund.

Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the Library. The General Fund is a major fund for the fiscal year ended June 30, 2006 for financial reporting purposes as defined by GASB Statement #34.

The General Fund pays for the Library's governmental services. The sole service provided during the fiscal year was library services, which incurred expenditures of \$528,657 for the fiscal year.

The basic governmental fund financial statements can be found on pages 3 and 5 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

**General Fund Budgetary Highlights**

The Library adopts an annual budget for the General Fund. A budgetary comparison statement has been provided as required supplementary information to demonstrate compliance with this budget.

The Library expended \$16,057 more than it budgeted for its total annual expenditures. Salaries and wages were higher than expected because one employee switched from full time to part time and another employee completed her Masters of Library Science degree and was subsequently given a pay raise. Also, contracted services were higher than expected because of unexpected HVAC and roof repairs.

It should be noted that while expression of the Library's finances in terms of assets is good of itself, the Library budgeting process has been committing general funds over the past 4 years in order to ensure a budget which will be able to meet the needs of the Library. In doing so, it is possible that a decrease in the General Fund will appear in any year where the expenditures exceed revenue. For example, in the current year, the amended Library budget shows a commitment of \$17,529 from the General Fund for a total expenditure budget of \$522,600. Actual revenue for the current year showed \$518,443 not including the budgeted general funds of \$17,529, which would bring the total to \$535,972. Actual expenditures for the year showed \$528,657 for a difference of \$7,315 below budget. The General Fund will therefore decrease by \$10,214 instead of the budgeted \$17,529.

**Capital Assets and Debt Administration**

At the end of the fiscal year, the Library had \$1,532,874 invested in building and improvements, equipment, furniture, and collections (net of accumulated depreciation). Additions included \$7,515 in equipment and furniture, and \$61,728 in materials added to the collection (as detailed in Note C to the financial statements).

No debt was issued during the fiscal year. The Library had no bonded indebtedness at June 30, 2006. The only long-term liability the Library had at June 30, 2006 was for compensated absences (as detailed in Note D to the financial statements) in the amount of \$15,800. This amount increased \$2,241 in the current year.

**Contacting the Library's Management**

This financial report is intended to provide our citizens, taxpayers, and library users with a general overview of the Library's finances and demonstrate the Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Library's Financial Office at 226 S. Bostwick, Charlotte, Michigan 48813.



## **BASIC FINANCIAL STATEMENTS**

Charlotte Community Library  
STATEMENT OF NET ASSETS  
June 30, 2006

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 150,513
Investments	186,435
Due from other governmental units	<u>146,654</u>
Total current assets	483,602
Noncurrent assets	
Investments	40,000
Capital assets, net of accumulated depreciation	<u>1,532,874</u>
Total noncurrent assets	<u>1,572,874</u>
TOTAL ASSETS	2,056,476
LIABILITIES	
Current	
Accounts payable	8,162
Accrued liabilities	<u>8,375</u>
Total current liabilities	16,537
Noncurrent liabilities	
Compensated absences	<u>15,800</u>
TOTAL LIABILITIES	<u>32,337</u>
NET ASSETS	
Invested in capital assets	1,532,874
Unrestricted	<u>491,265</u>
TOTAL NET ASSETS	<u><u>\$ 2,024,139</u></u>

See accompanying notes to financial statements.

Charlotte Community Library

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Change in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Recreation and cultural	\$ 551,395	\$ 21,769	\$ 3,624	\$ (526,002)
General revenues:				
				328,378
				20,979
				135,776
				5,297
				2,620
			TOTAL GENERAL REVENUES	493,050
			CHANGE IN NET ASSETS	(32,952)
			Net assets, beginning of year	2,057,091
			Net assets, end of year	\$ 2,024,139

See accompanying notes to financial statements.

## Charlotte Community Library

## GOVERNMENTAL FUND BALANCE SHEET

June 30, 2006

	General
ASSETS	
Cash and cash equivalents	\$ 150,513
Investments	226,435
Due from other governmental units	<u>146,654</u>
TOTAL ASSETS	<u>\$ 523,602</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 8,162
Accrued liabilities	<u>8,375</u>
TOTAL LIABILITIES	16,537
FUND BALANCE	
Unreserved	
Designated for:	
Special projects	86,435
Capital improvements	71,000
Subsequent years' expenditures	135,776
Undesignated	<u>213,854</u>
TOTAL FUND BALANCE	<u>507,065</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 523,602</u>

See accompanying notes to financial statements.

Charlotte Community Library

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

June 30, 2006

**Fund balance - governmental fund** \$ 507,065

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 2,472,869
Accumulated depreciation is	<u>(939,995)</u>

Capital assets, net	1,532,874
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Long-term liabilities are not due and payable in the current period the funds.  
and therefore are not reported as liabilities in the funds. Long-term liabilities  
at year-end consist of:

Compensated absences	<u>(15,800)</u>
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<b>Net assets of governmental activities</b>	<u><u>\$ 2,024,139</u></u>
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See accompanying notes to financial statements.

Charlotte Community Library

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
GOVERNMENTAL FUND

Year Ended June 30, 2006

	<u>General</u>
REVENUES	
Taxes	\$ 328,378
Charges for services	21,769
Intergovernmental	20,979
Fines and forfeits	135,776
Interest	5,297
Other	<u>6,244</u>
TOTAL REVENUES	518,443
EXPENDITURES	
Current	
Recreation and cultural	460,868
Capital outlay	<u>67,789</u>
TOTAL EXPENDITURES	<u>528,657</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	(10,214)
Fund balance, beginning of year	<u>517,279</u>
Fund balance, end of year	<u><u>\$ 507,065</u></u>

See accompanying notes to financial statements.

Charlotte Community Library

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

**Net change in fund balances - governmental funds** \$ (10,214)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 69,243
Depreciation expense	<u>(89,740)</u>

Excess of depreciation expense over capital outlay (20,497)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in compensated absences	<u>(2,241)</u>
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**Change in net assets of governmental activities** \$ (32,952)

See accompanying notes to financial statements.

Charlotte Community Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Under Public Act 24 of 1989, the City of Charlotte and the Townships of Carmel and Eaton created the Charlotte Community Library on December 1, 1998, which is considered a District Library. Public Act 24 defines the Library's legal status as "an Authority under Section 6 of Article IX of the State Constitution of 1963" thereby classifying the Library as a Michigan Municipal Corporation. The City and Townships collect and distribute property taxes that are levied by the Library. The Library has no stockholders, and all monies received are to be used for certain specified purposes in accordance with the by-laws of the Library.

The governing body of the Library is a board, which is comprised of seven (7) members, three (3) appointed by the City of Charlotte, two (2) appointed by the Township of Carmel, and two (2) appointed by the Township of Eaton. A Library Director is appointed by the board and is considered the executive officer of the Library.

The Charlotte Community Library's goal is to provide materials and services, which will furnish opportunities for educational, informational, recreational, and cultural needs of the community.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, *The Financial Reporting Entity* (as amended by GASB Statement 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present all financial activities of the Charlotte Community Library. The Charlotte Community Library has no activities that would be classified as component units.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the Government-wide statements) present information for the Library as a whole.

The statement of activities presents the direct functional expenses of the Library and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the Library.

FUND FINANCIAL STATEMENTS

The General Fund is presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of this fund present increases (i.e., revenues) and decreases (i.e., expenditures) in net current assets.

The major fund of the Library is:

- a. General Fund - The General Fund is the general operating fund of the Library. It is used to account for all financial resources.



Charlotte Community Library  
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**3. Measurement Focus**

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

**4. Basis of Accounting**

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The Government-wide financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the Library before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt which are recorded when due.

Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the Library receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

**5. Budgets and Budgetary Accounting**

The General Fund budget shown as required supplementary information to the financial statements was prepared on a basis consistent with the basis used to reflect actual results. The Library employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. The Library prepares the proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and resources to finance them.
- b. Prior to incurring significant expenditures, the budget is legally enacted through Library Board action.
- c. The budget is legally adopted at the total expenditure level and maintained at the account level.

Charlotte Community Library  
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

5. Budgets and Budgetary Accounting - continued

- d. Budgeted amounts are reported as originally adopted or amended by the Library Board during the year.

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of money market checking and savings accounts.

Investments include certificates of deposit with an original maturity of greater than 90 days from the date of purchase.

7. Receivables

Receivables consist of penal fines and other amounts due from organizations or other governments.

8. Property Taxes

The participating City and Townships levy and collect property taxes for the Library. As the Library tax is collected it is remitted by the City and Township Treasurers. At March 1 each year, the City and Townships settle their delinquent taxes with the respective County Treasurer and the unpaid real property tax is remitted to the Library by the County Treasurer in Eaton County. Delinquent personal property taxes are retained by the Treasurers for subsequent collection. The Library is permitted by state statute to levy up to \$4 per \$1,000 of assessed valuation on property within the District. The voters approved a levy of .9 mills for a period of ten (10) years commencing December 1, 1998. For the year ended June 30, 2006, the Library levied .8758 mills.

9. Capital Assets

Capital assets include buildings, equipment, and collection and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements. Capital assets are those with an initial individual cost of \$1,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental fund. Instead, capital acquisition and construction are reflected as expenditures in the governmental fund and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and improvements	40 years
Equipment and furniture	5 - 50 years
Collections	5 - 40 years

10. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the Library has recorded all liabilities associated with compensated absences. Accumulated vested sick and vacation pay amounts and non-vested sick and vacation pay amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a noncurrent liability in the government-wide financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

11. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS**

In accordance with Michigan Compiled Laws, the Charlotte Community Library is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

There is a custodial credit risk as it related to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. As of June 30, 2006, the carrying amount of the Library's deposits was \$376,948 and the bank balance was \$377,593.

Deposits of the Library are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Library. As of June 30, 2006, the Library accounts were insured by the FDIC for \$354,546 and the amount of \$23,047 was uninsured and uncollateralized.

Charlotte Community Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

Due to significantly higher cash flow at certain periods during the year, the amount the Library held as cash and cash equivalents increased significantly. As a result, the amount of the uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Interest rate risk

The Library will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by designating its investment portfolio with the objective of obtaining a rate of return through the economic cycles considering risk constraints and cash flow characteristics.

Concentration of credit risk

The Library will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio by security type to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments caption in the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of June 30, 2006:

Cash and cash equivalents	\$ 150,513
Investments	<u>226,435</u>
	<u>\$ 376,948</u>

**NOTE C: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2006, was as follows:

	Restated Balance July 1, 2005	Additions	Disposals	Balance June 30, 2006
Governmental Activities				
Buildings and additions	\$ 970,040	\$ -	\$ -	\$ 970,040
Equipment and furniture	348,494	7,515	( 5,886 )	350,123
Collections	<u>1,132,493</u>	<u>61,728</u>	<u>( 41,515 )</u>	<u>1,152,706</u>
Totals at historical cost	2,451,027	69,243	( 47,401 )	2,472,869
Less accumulated depreciation for:				
Buildings and additions	( 38,397 )	( 24,251 )	-	( 62,648 )
Equipment and furniture	( 163,229 )	( 14,996 )	5,886	( 172,339 )
Collections	<u>( 696,030 )</u>	<u>( 50,493 )</u>	<u>41,515</u>	<u>( 705,008 )</u>
Total accumulated depreciation	<u>( 897,656 )</u>	<u>( 89,740 )</u>	<u>47,401</u>	<u>( 939,995 )</u>
Capital assets, net	<u>\$ 1,553,371</u>	<u>\$ ( 20,497 )</u>	<u>\$ -0-</u>	<u>\$ 1,532,874</u>

Depreciation expense of \$89,740 is included in the recreation and cultural function on the statement of activities.

Charlotte Community Library  
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE D: COMPENSATED ABSENCES**

The following is a summary of changes in compensated absences (including current portions) of the Library for the year ended June 30, 2006:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Amounts Due Within One Year
Compensated absences	\$ 13,559	\$ 2,241	\$ -	\$ 15,800	\$ -

Significant details regarding outstanding long-term debt (including current portions) are presented below:

**Compensated Absences**

In accordance with Library personnel policies, individual employees have rights upon termination of employment to receive payment for unused vacation and sick leave under the formulas and conditions specified in the personnel policies. The dollar amount of these rights (vested and probable to vest) including related payroll taxes amounted to \$15,800 for compensated absences at June 30, 2006. This amount has been recorded in the government-wide financial statements.

**NOTE E: FUND BALANCE DESIGNATIONS**

Designated fund balance is used to earmark a portion of fund balance to indicate that it is not available for expenditure due to being segregated for a specific future use.

The following are the fund balance designations as of June 30, 2006:

General Fund	
Designated for special projects	\$ 86,435
Designated for subsequent years' expenditures	135,776
Designated for capital improvements	<u>71,000</u>
	<u>\$ 293,211</u>

**NOTE F: RISK MANAGEMENT**

The Library participates in a State pool, the Michigan Municipal Liability and Property Pool, with other municipalities for property, liability, bonding, and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. The Library also participates in a State Pool, the Michigan Municipal Workers Compensation Fund, with other municipalities for worker's compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The Library has no liability for additional assessments based on the claims filed against the pools nor do they have any right to dividends.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE G: RETIREMENT PLAN**Plan Description

The Library participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible (i.e., full-time) employees of the Library. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the Library Board. The plan requires a contribution from the Director and Children's Librarian at 3.40 percent (under the B-3 benefit program) and the Library contributes the remaining amounts necessary to fund the system.

Annual Pension Cost

For the year ended June 30, 2006, the Library's annual pension cost of \$24,239 for the plan was equal to the Library's required and actual contribution. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry actual age cost method. Actual required contributions are based on current monthly payroll times an actuarially computed employer contribution rate. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 8.4% per year depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a 32 year period on a closed basis.

Three (3) year trend information

	Year Ended December 31,		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Actuarial value of assets	\$ 277,458	\$ 287,083	\$ 297,827
Actuarial accrued liability (AAL)	449,729	455,136	472,885
Unfunded AAL	172,271	168,053	175,058
Funded ratio	62%	63%	63%
Covered payroll	149,809	165,887	175,150
UAAL as a percentage of covered payroll	115%	101%	100%

	Year Ended June 30,		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Annual pension cost	\$ 21,503	\$ 23,355	\$ 24,239
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

Charlotte Community Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE H: POST-EMPLOYMENT HEALTH CARE BENEFITS**

The Library provides certain health care benefits for the Library Director who retired in June of 2000. The Library pays 22% per month toward the cost of health insurance premiums and the City of Charlotte pays 78%. If the Library's portion exceeds \$200 per month, it is the Library Director's responsibility to pay any amount above and beyond the \$200.

The cost of retirees' health care benefits is recognized as an expenditure as insurance premiums are paid. For the year ended June 30, 2006, those costs totaled \$1,919 and were paid from the General Fund.

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the new employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ended June 30, 2009.

**NOTE I: EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

In the required supplementary information to the financial statements, the Library's budgeted expenditures in the General Fund have been shown at the functional classification level. The approved budgets of the Library have been adopted at the total expenditure level.

During the year ended June 30, 2006, the Library incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
Total expenditures	<u>\$ 512,600</u>	<u>\$ 528,657</u>	<u>\$ 16,057</u>

## REQUIRED SUPPLEMENTARY INFORMATION



## Charlotte Community Library

## General Fund

## BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 329,591	\$ 328,378	\$ 328,378	\$ -0-
Library fees	18,400	21,768	21,769	1
Intergovernmental	20,644	20,979	20,979	-0-
Penal fines	127,779	127,779	135,776	7,997
Interest	3,300	5,297	5,297	-0-
Other				
Donations	-	-	3,624	3,624
Other	700	870	2,620	1,750
TOTAL REVENUES	500,414	505,071	518,443	13,372
EXPENDITURES				
Recreation and cultural				
Salaries and wages	244,855	242,904	249,251	(6,347)
Payroll taxes	18,715	18,488	19,062	(574)
Fringe benefits	119,354	97,108	97,108	-0-
Utilities	19,650	20,891	20,700	191
Supplies	9,900	9,650	9,631	19
Printing	1,000	1,296	1,296	-0-
Repairs and maintenance	13,000	13,053	13,043	10
Insurance	8,850	8,186	8,186	-0-
Contractual services	34,972	33,810	38,936	(5,126)
Travel	1,000	837	863	(26)
Dues and memberships	640	740	740	-0-
Grant expenditures	-	-	1,749	(1,749)
Miscellaneous	300	300	303	(3)
Total recreation and cultural	472,236	447,263	460,868	(13,605)
Capital outlay				
Books and other materials	54,100	59,250	59,017	233
Memorial books	-	-	2,711	(2,711)
Furniture and equipment	6,000	6,087	6,061	26
Total capital outlay	60,100	65,337	67,789	(2,452)
TOTAL EXPENDITURES	532,336	512,600	528,657	(16,057)
EXCESS OF REVENUES (UNDER) EXPENDITURES	(31,922)	(7,529)	(10,214)	(2,685)
Fund balance, beginning of year	517,279	517,279	517,279	-0-
Fund balance, end of year	\$ 485,357	\$ 509,750	\$ 507,065	\$ (2,685)

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
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**ABRAHAM & GAFFNEY, P.C.**

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MANAGEMENT LETTER

Members of the Board of Trustees  
Charlotte Community Library  
Charlotte, Michigan

As you know, we have recently completed our audit of the records of the Charlotte Community Library as of and for the year ended June 30, 2006. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. These suggestions are the result of our evaluation of the internal control and our discussions with management.

1. Budgets should be monitored and amended when necessary.

As noted in the financial statements, the total expenditures in the General Fund exceeded the amounts appropriated.

The Michigan Public Act 621 of 1978, as amended, provides that the Library adopt a formal budget for the General Fund, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

We suggest the Library monitor expenditures against adopted budgets and make appropriate budget amendments as needed.

2. The Library should prepare for implementation of GASB Statement #45.

The Governmental Accounting Standards Board has recently issued Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the new employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the Charlotte Community Library the year ended June 30, 2009.

The Library is subject to this new standard in that it pays a portion (up to \$200 per month) toward the cost of health insurance premiums for the former Library Director who retired in June of 2000.

We would like the Board to be aware of this upcoming change and also suggest that the Library begin to discuss options for calculating the amount of the liability to be recorded in the statement of Net Assets. The Board has the option of contracting an actuary to determine the liability or calculating the liability using an alternate method described in GASB Statement No. 45.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the basic financial statements, and this report does not affect our report on the basic financial statements dated July 24, 2006.

This report is intended solely for the information of management and the Board of Trustees of the Charlotte Community Library and is not intended to be, and should not be, used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

July 24, 2006